# HSBC Vietnam Manufacturing PMI™

## Manufacturing sector stagnates as export demand weakens

### Summary

At 50.1 in January, up from 49.3 in December, the seasonally adjusted HSBC Vietnam Manufacturing PMI edged back above the 50.0 no-change mark. Although the headline index was consistent with a broad stagnation of the manufacturing sector, it was nonetheless above its series average of 48.9.

Manufacturing production increased for the third successive month in January, as companies benefited from a modest improvement in new order volumes from the domestic market. Overseas demand remained lacklustre, however, leading to a further solid decrease in new export orders. Vietnam manufacturers reported lower levels of new work from the Eurozone and (to a lesser extent) China. There were also reports linking weaker export volumes to subdued global market conditions.

January data signalled further marginal jobs growth in the Vietnam manufacturing sector. Payroll numbers have now increased in each of the past four months, generally in response to the recent modest upturn in production volumes. Spare capacity remained, however, leading to a further reduction in backlogs of work.

January saw a solid increase in average input prices, a marked turnaround from the marginal reduction signalled in the previous month. Higher purchase prices were linked to increased costs for raw materials and transportation. There were also reports of higher prices paid for imported goods, materials and services.

Lacklustre demand and strong competition continued to erode the pricing power of Vietnam manufacturers. Output prices fell for the ninth month running. The rate of decline eased sharply, however, as a number of companies passed on higher raw material costs to their clients.

Vietnam manufacturers maintained a preference for leaner inventory holdings during January. This was highlighted by further depletion of both raw material and finished goods stocks. The decline in inventories of finished products was the steepest in the 22-month series history.

Purchasing activity was raised for the second time in the past three months during January, partly to reduce the pressure on input stocks. The recent increases in input buying are in contrast to the marked declines signalled during the middle of last year.

### Comment

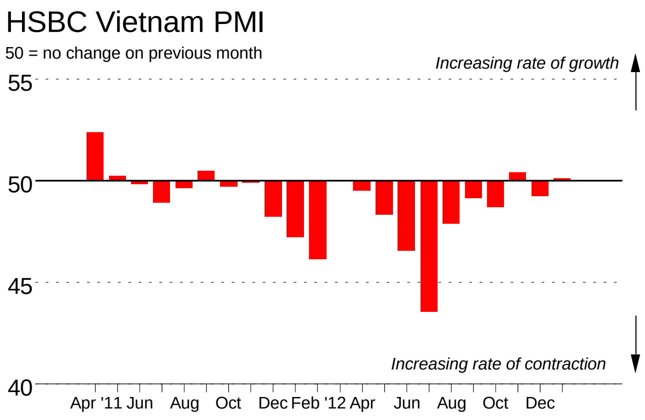
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

*"The expansion of the manufacturing sector in January points to a gradual recovery of the economy, although the process is still quite a bumpy one. Improved domestic demand lifted the output level while external demand remains sluggish, primarily dragged down by weak growth from the EU. The significant rise of input prices, however, poses a risk to the sector as it raises costs for producers. We expect the recovery of the economy to continue into 2013, supporting higher growth this year than the previous year, although the economy would still be below trend as a restructuring of the economy is undergoing. Inflation is a concern, as it is trending up due to both an unfavourable base effect, a China recovery, and a rise of domestic demand."*

### Key points

- HSBC Vietnam Manufacturing PMI edges back above 50.0 no-change mark
- Output expands following increase in new orders
- Input cost inflation gains on back of higher raw material, transportation and import prices

### Historical Overview




*Sources: Markit, HSBC.*

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### Notes to Editors:

The HSBC Vietnam Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Vietnamese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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